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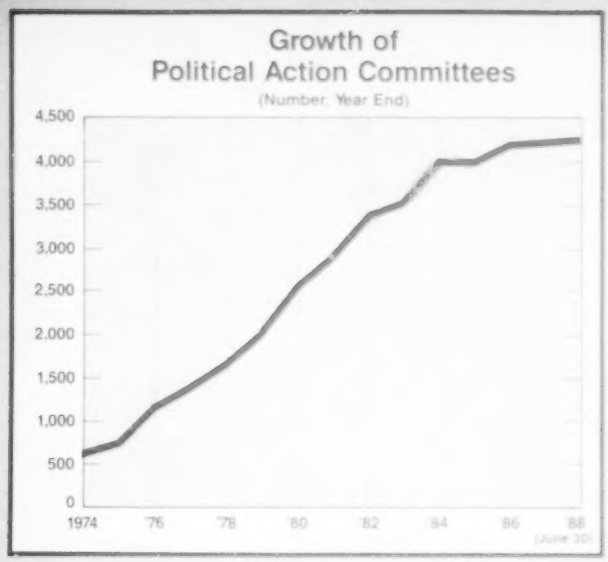
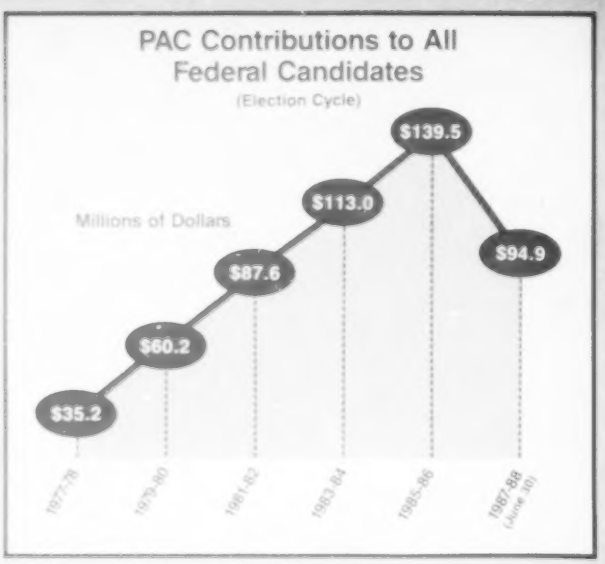
The Conference Board
Economic Road Maps

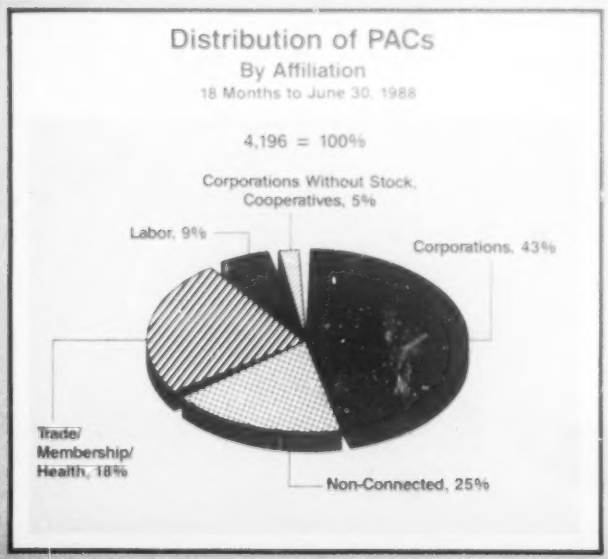
Political Action Committees

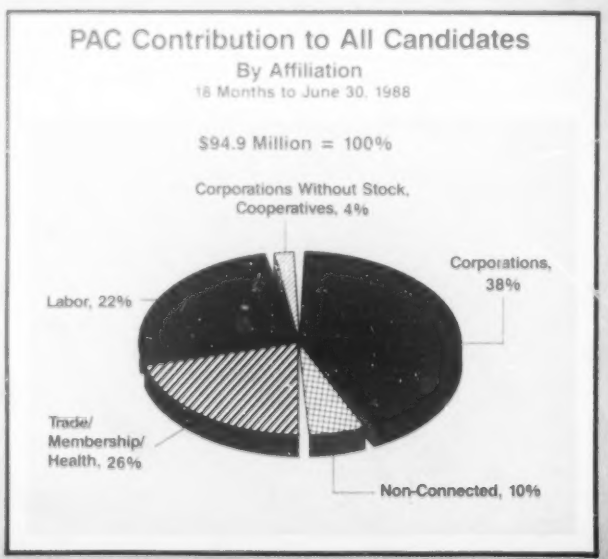
Nos. 2021-2022 October, 1988

Presidential election years, such as 1988, heighten interest in the cost of political campaigns in the United States and in how they are financed. Political action committees (PACs) are an important part of the system that finances the election process. The number of PACs has risen dramatically since the adoption of the Federal Election Campaign Act (FECA) in 1974. The act provides for partial public financing of presidential elections and sets ceilings on campaign contributions by individuals and on campaign expenditures by candidates for federal office. In the closing days of 1974 only 608 PACs were registered with the Federal Election Commission (FEC), but these grew in number to 4,196 by mid-1988.





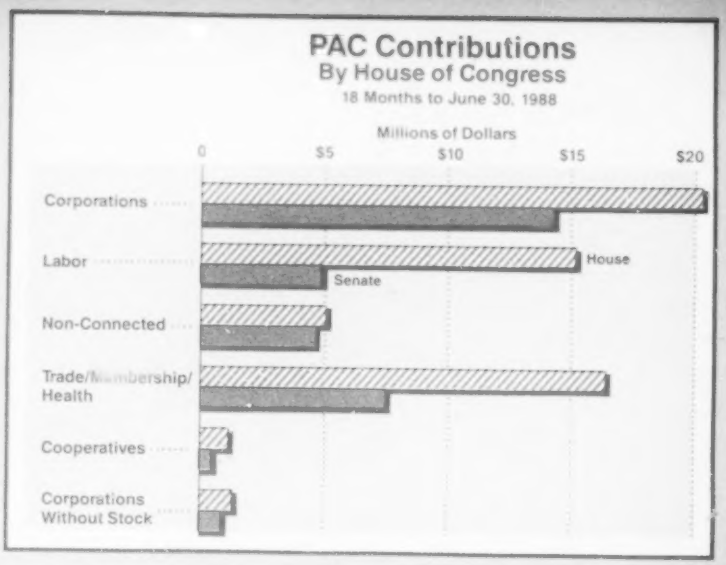


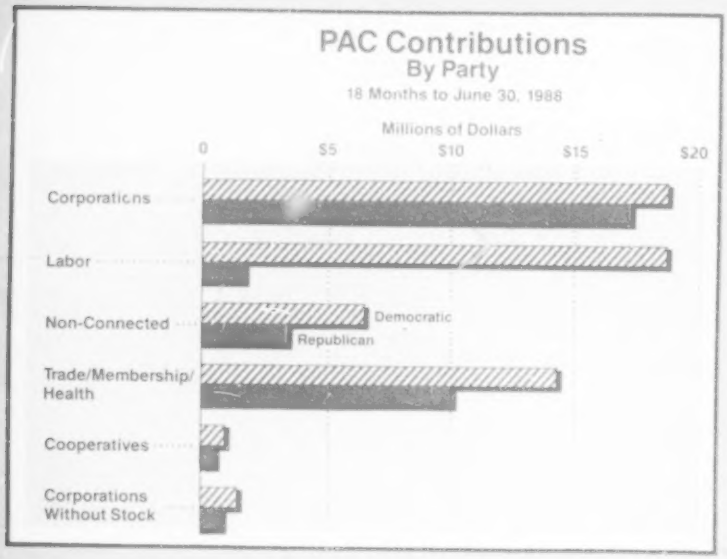


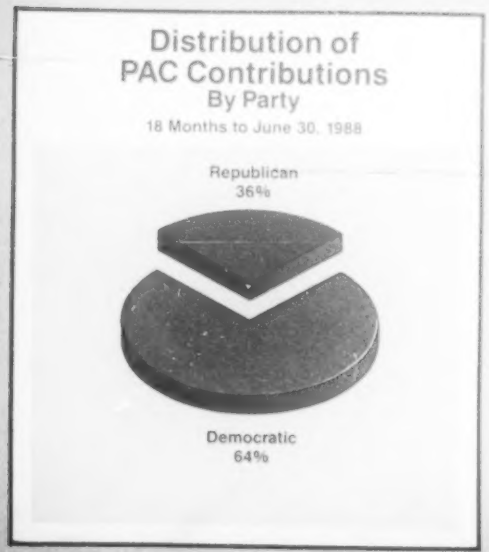
Any group can set up a PAC for the purpose of raising funds for political candidates. PACs can be affiliated with a sponsor, such as a corporation, labor union, or a trade association, and can solicit the sponsor's members for contributions. The sponsoring organizations themselves are not allowed to give money to the PACs for contributions to candidates; they can only allocate funds to the PACs for administrative costs. All PACs must register with the FEC, which monitors all receipts, disbursements, and contributions to candidates running for federal offices (the House of Representatives, the Senate, and the Presidency).

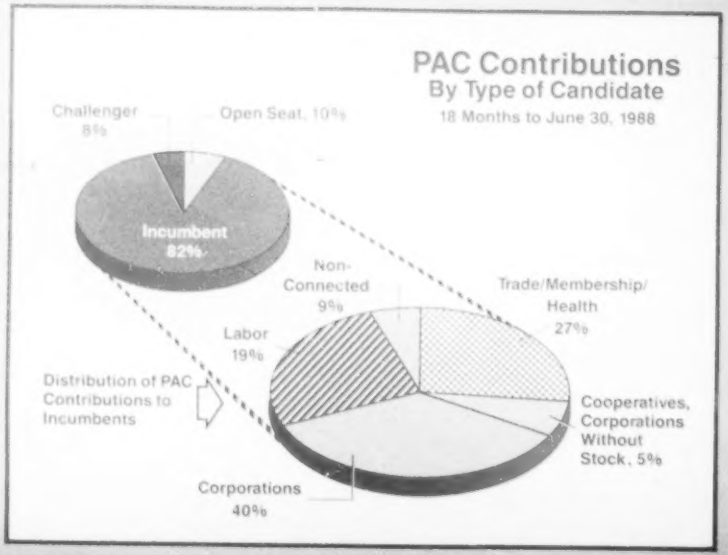
The FEC groups the nonpolitical party PACs into six categories. While the number of PACs in all categories has increased since 1974, exceptionally high growth occurred in the categories of Corporate and non-Connected, or ideological PACs. The number of Corporate PACs jumped from less than 100 to over 1,800 between 1974 and 1988, while non-Connected PACs rose from 110 in 1977 to more than 1,000 in 1988.

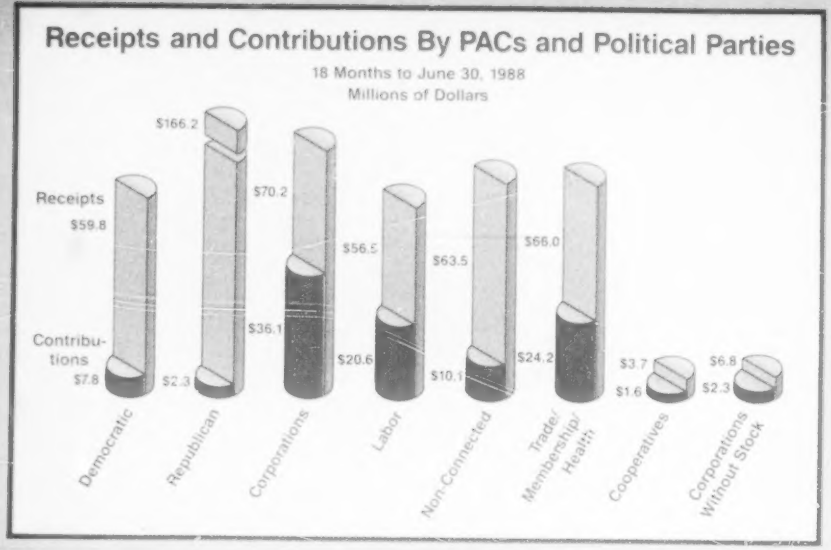
Only a small portion of PAC receipts are contributed directly to the candidates. Most of the funds cover PAC operating costs, are spent on behalf of the candidates, or are carried over to the next two-year election cycle. Between January 1, 1987 and June 30, 1988, PACs raised nearly $267 million and spent about $215 million, up 5% from the previous period. Their combined contributions to all candidates for federal office totaled $95 million—an increase of 21% during the 18-month election cycle; over 80% of all contributions went to incumbents.

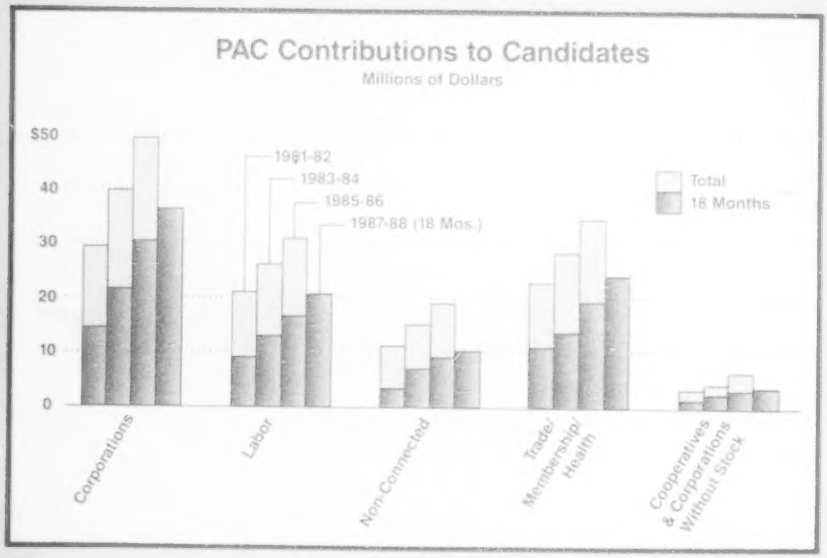


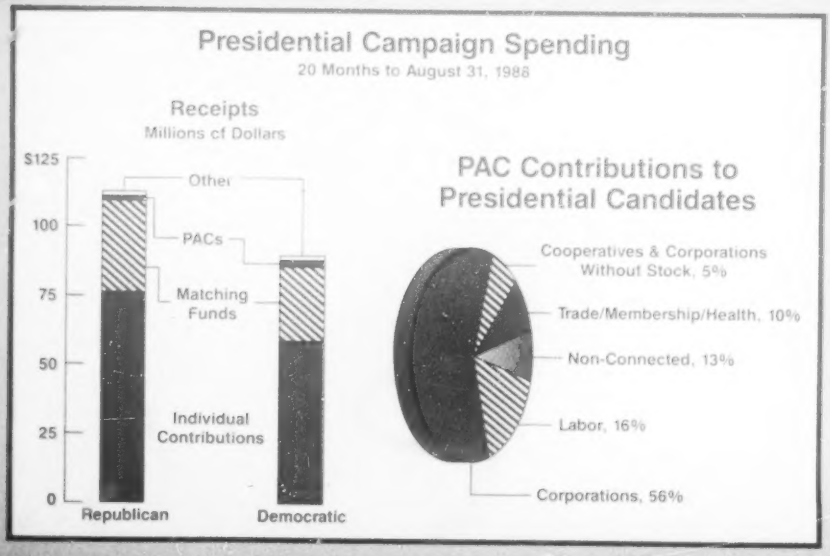












ELECTION CONTRIBUTIONS:

Who? How Much? To Whom?

Individuals

- $25,000 maximum to presidential and congressional campaigns. Only $1,000 can go directly to any one candidate; $5,000 to any one PAC; and up to $20,000 to a national party for campaigns for federal offices.
- Unlimited contributions can be made to a national party for state and local campaigns (soft money).
- Contributions to state and local party organizations can also be made, but limits apply in a number of states.

PACs

- $15,000 maximum annually to a party for campaigns for national offices.
- Unlimited "soft money" to a party for state and local campaigns, party building, and voter drives.
- Unlimited independent expenditures, which do not go directly to a candidate but are intended to benefit or hurt a campaign.

Corporations and Labor Groups

- Prohibited from contributing to candidates for federal office.
- Unlimited contributions to a party for state and local campaigns, party building, and voter drives.

Political Parties

Each political party's national committee can spend:

- $8.3 million on behalf of presidential candidates in general elections.
- $46,100—$938,680 on behalf of each senate nominee, based on size of the voting-age population of the state.
- $25,050 for each House race.
- Individual state party committees may spend similar amounts for Senate and House races, or they can transfer their limits to the national committee, thus effectively doubling spending limits.

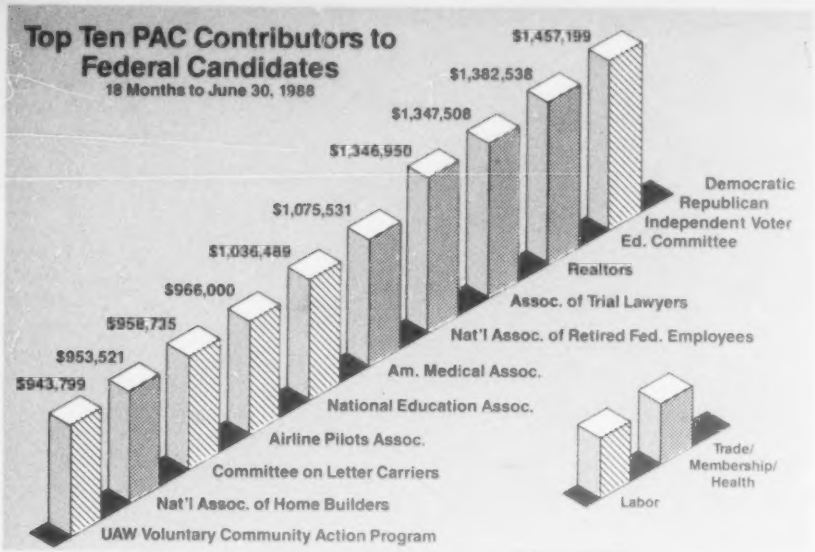
Presidential Candidates

Primaries:

- Candidates accepting federal matching funds can spend a maximum of $27.66 million (legal and accounting expenses are exempt from the limit).

General elections:

- Each nominee receives $46.1 million in public funds for campaign costs and $9.2 million for convention costs.
- Each political party may spend $8.3 million on behalf of its candidate.

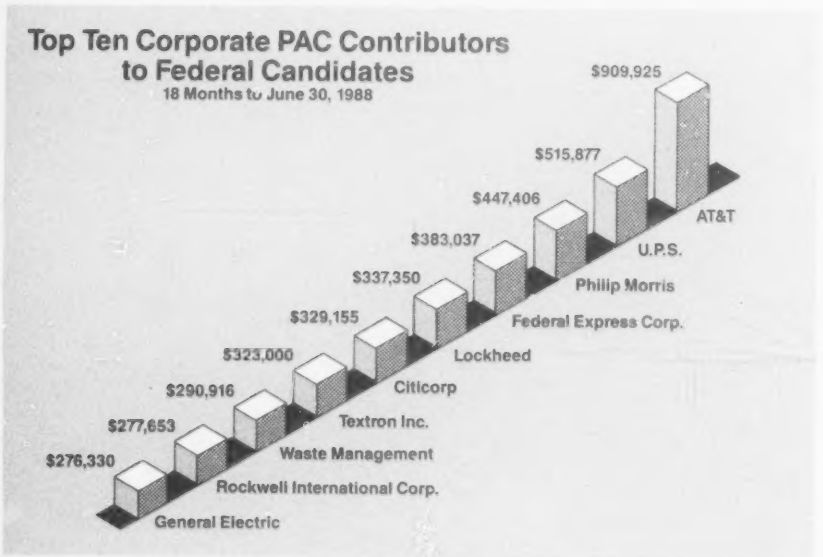


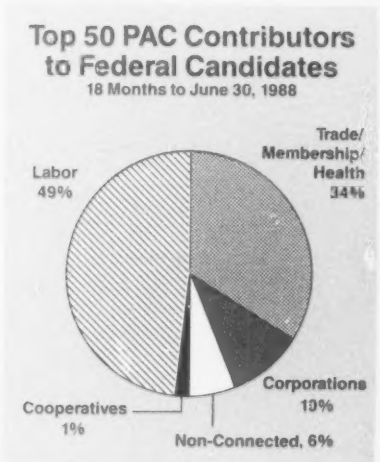
In the current election cycle, PAC contributions tend to favor Democrats. Contributions to Democratic House and Senate candidates were 44% higher than in the last cycle, while giving to Republican congressional candidates declined 7% from the earlier period. The ten largest PAC contributors—all Trade/Membership/Health and Labor committees—gave $11.5 million to federal candidates. These contributors account for less than one quarter percent of the total number of PACs but for 12% of all funds contributed by PACs to federal candidates.

In the current presidential campaign over $200 million was raised through August 31, 1988, $113 million by Republicans and $90 million by Democrats. Individual contributors were the main source of funds, with $135 million.

Eva Culen

Sources: Federal Election Commission; The Conference Board.





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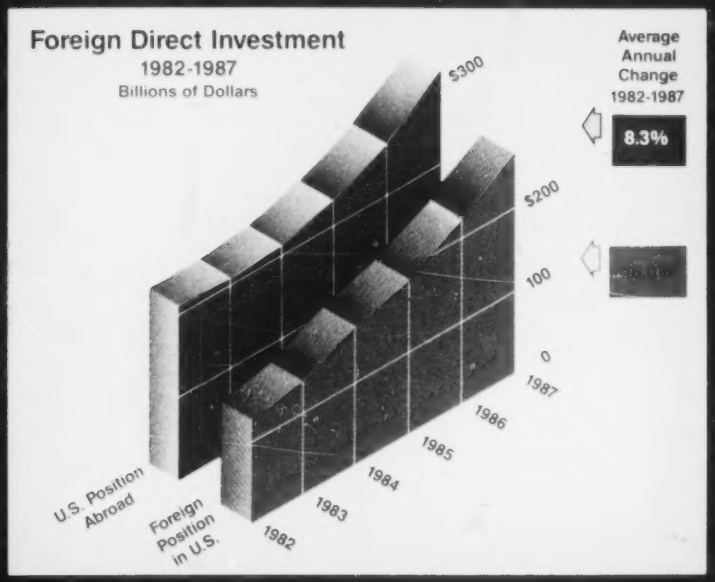
Foreign Direct Investment

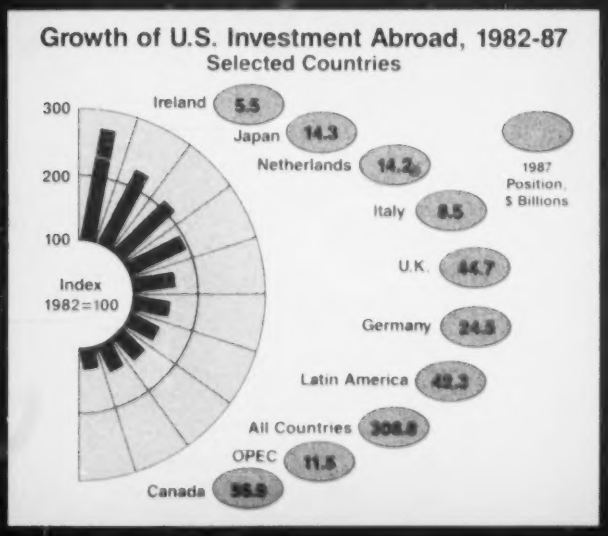
Nos. 2023-2024 December, 1988

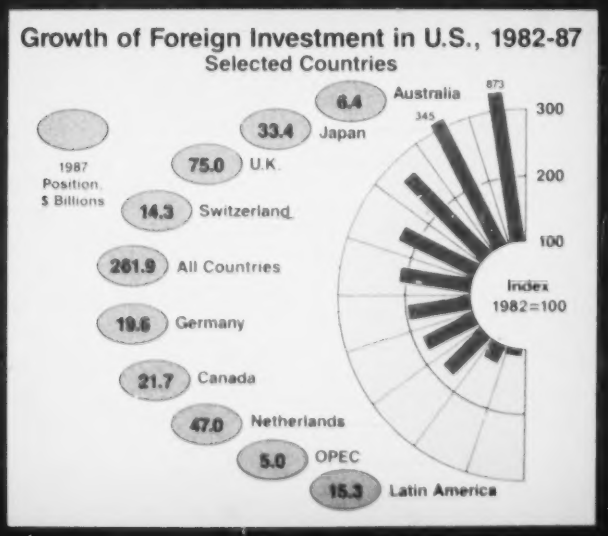
Beginning in the mid-1950s, the massive flow of U.S. direct investment abroad was viewed with some alarm by recipient countries, leading to the concept of "le défi Américain" (the American challenge). These days the tables are turned, as rapidly growing foreign direct investment in the United States has raised cries of "buying into America." In the U.S., one school of thought sees long-term harm befalling the country, as more economic and political decisions may be influenced by foreign interests. Another school extols the benefits of the large capital inflows, citing such benefits as the creation of new jobs and the acquisition of new technology; it also deems them necessary to help balance our current account deficit.

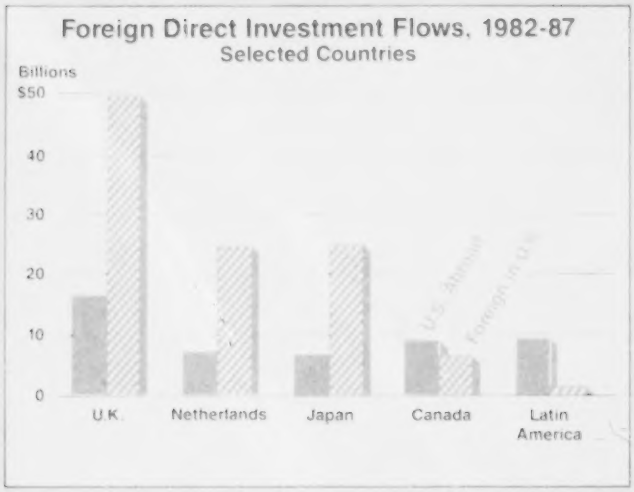


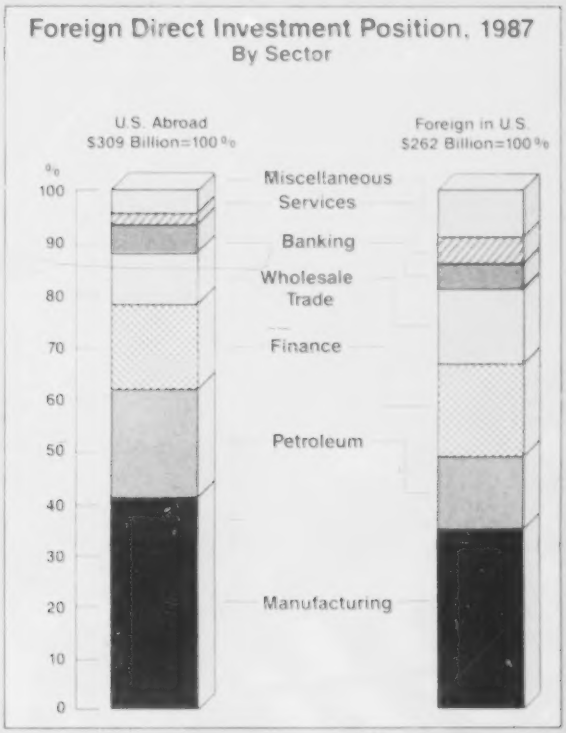
Large-scale U.S. direct investment abroad dates back to the mid-1950s. The U.S. then sold more in goods and services abroad than it bought and used part of that surplus to "export" capital. By the early 1980s, however, outgoing investment flows were growing slowly in spite of the rising dollar. Paradoxically, the slump in the dollar since 1985 seems to have stimulated U.S. investment abroad at an unprecedented rate. Over $90 billion poured out in the period from 1982 to 1987 while incoming flows were $146 billion. In 1987, the stock of U.S. direct investment abroad was $309 billion, having grown at an average annual rate of 8% since 1982.

In recent years, a major wave of incoming investment caused the foreign position in the U.S. to rise to $262 billion by 1987, at twice the rate of growth of outgoing U.S. investment. In spite of satisfactory economic growth abroad, foreign investors continue to pour money into the United States. Some of the





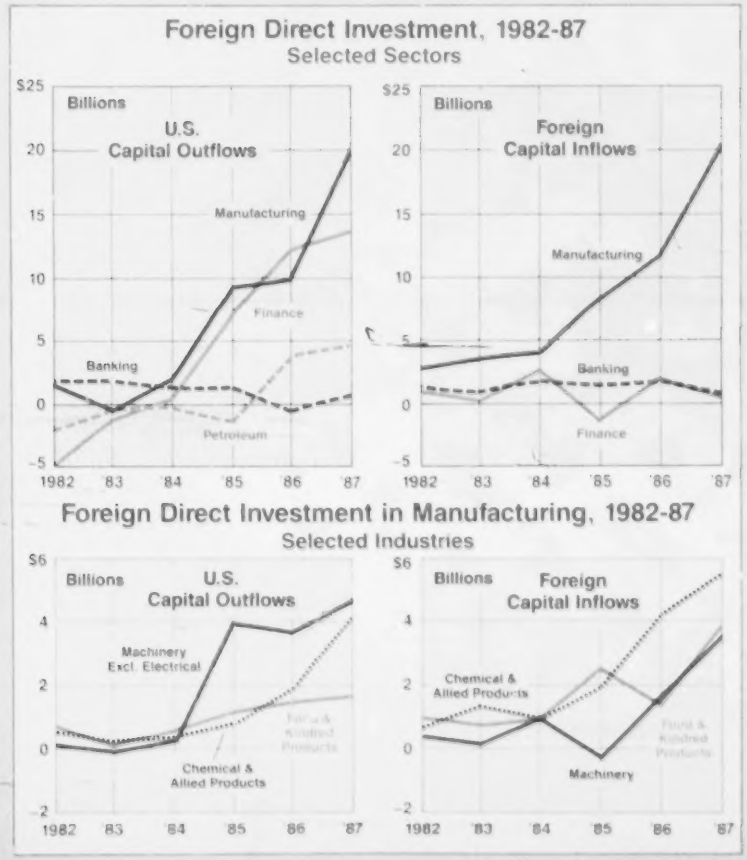


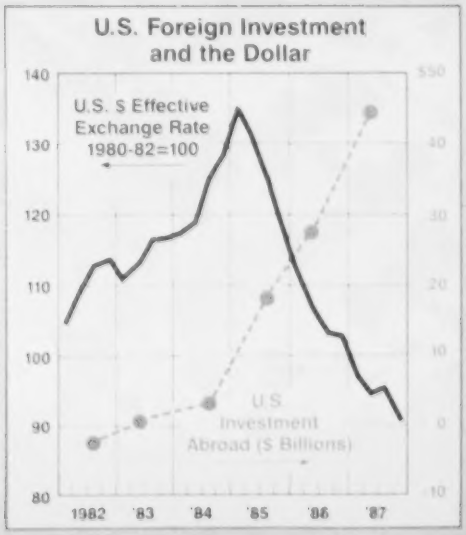


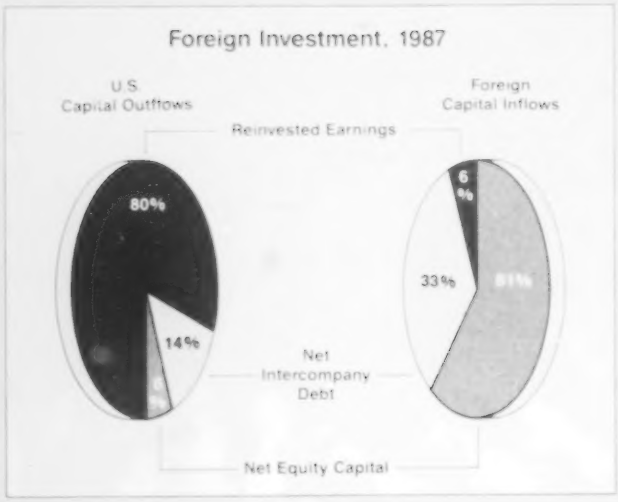
reasons are obvious. The U.S. is by far the single largest and wealthiest market in the world, with a healthy economy and low inflation. Good infrastructure and political stability are added attractions. The decline of the dollar and the availability of investment opportunities combine value with choice. And, finally, there is a continuing aura of protectionism that makes it prudent to establish businesses domestically.

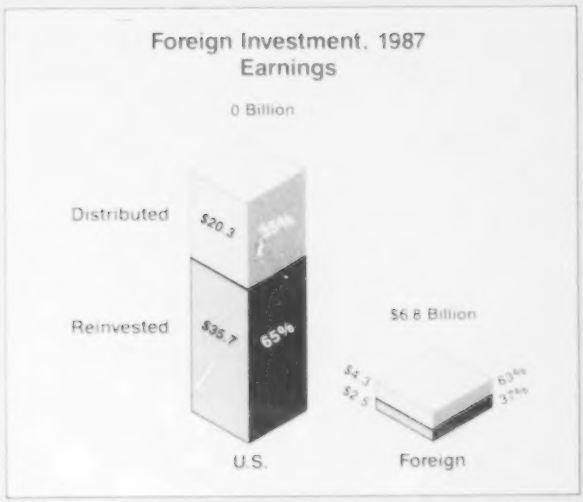
In 1987, manufacturing and petroleum investment accounted for over half of investors' positions in the United States and abroad. That year, for the first time, inflows and outflows of capital for investments in manufacturing were equal—at approximately $20 billion, with machinery, chemicals, and food products comprising the major portion. The U.K. was the single largest investor in the U.S. with $75 billion, followed by the Netherlands with $47 billion. However, Japan with $33 billion in investment in the U.S. in 1987 had one of the fastest growth rates; its investments tripled since 1982.

From 1982 to 1987, U.K. investment flows to the U.S. totaled $50 billion, while the



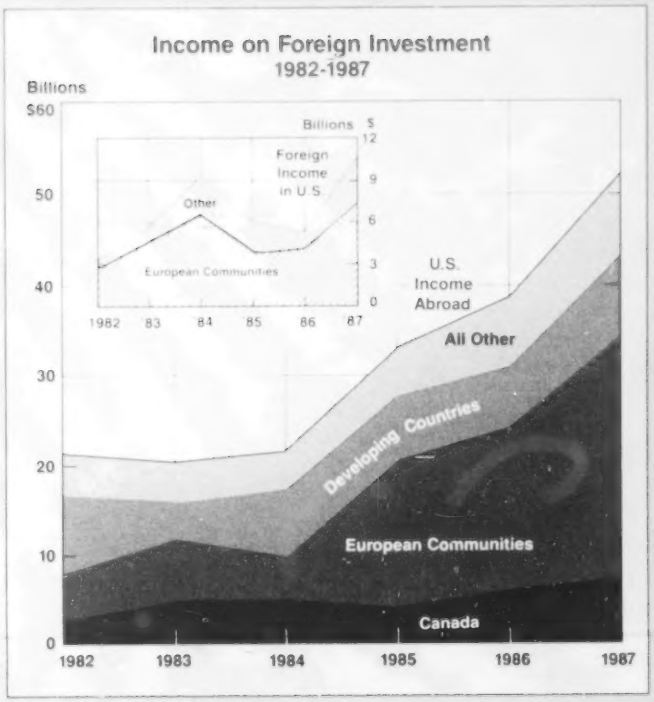


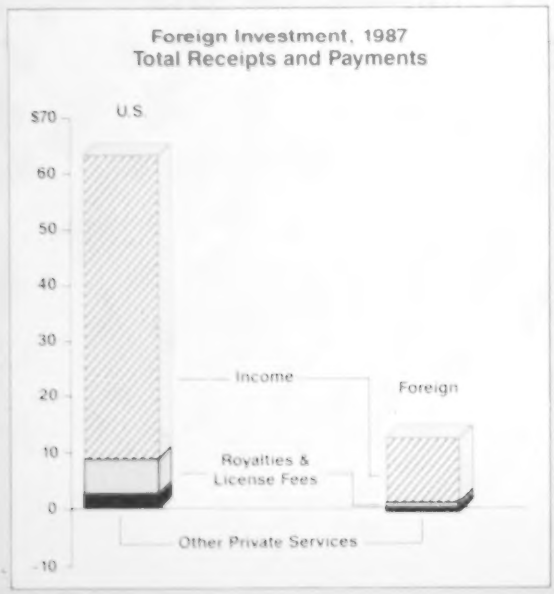




Netherlands and Japan added $25 billion each; these inflows vastly exceeded U.S. outflows to these countries. On the other hand, the U.S. invested about $10 billion each in Canada and Latin America, substantially more than businesses in those countries invested in the U.S.

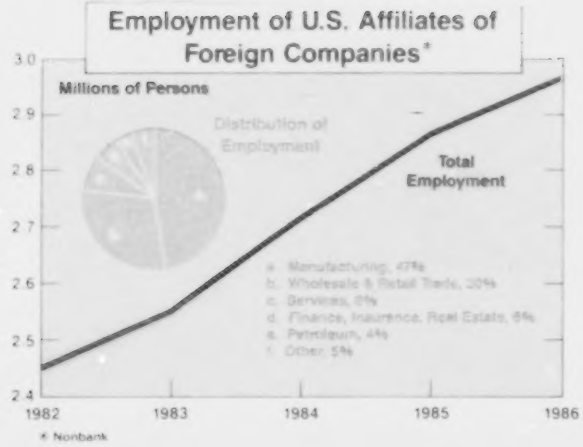
The relative magnitudes of foreign direct investment to and from the U.S. mask some further differences (see charts on this page). The U.S. has been investing abroad for a much longer time and hence has extensive operations abroad. Consequently, additional American investments are channeled into existing subsidiaries in the form of reinvested earnings. Only a minuscule portion of foreign investments in the U.S. falls into this category, with the major share going into new equity capital and intercompany debt. Earnings on foreign investments is also illustrative: while the U.S. derived $56 billion in earnings from its direct foreign

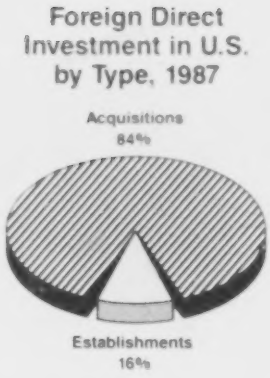


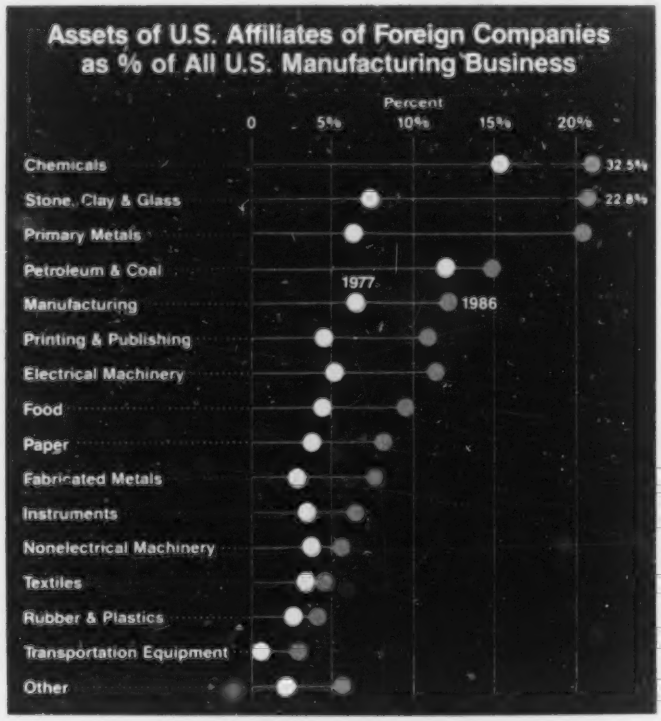


investments in 1987, foreigners earned less than $7 billion. Of these earnings, foreign investors reinvested 37%, while U.S. companies reinvested 64%. Measured in terms of income, American investors did well, especially in the Common Market countries, where prosperous economies helped to boost business; income from EC countries was at least double that of all other countries from which the U.S. received payments in 1987.

In spite of a sizable increase in absolute terms in recent years, employment by U.S. affiliates of foreign companies remained fairly small as a share of total employment—3.5% in 1986, the latest year for which figures are available. The ratio is higher in manufacturing (7.8%), mainly as a result of the heavy concentration of foreign investment in manufacturing versus services. Merchandise exports by foreign-owned U.S. affiliates were







$51 billion in 1986; imports to affiliates totaled $124 billion, half of which was in wholesale trade in motor vehicles and durable goods.

Foreign direct investment in the U.S. is heavily supplemented by financial investments which, on balance, leave the U.S. in a heavily indebted position. At the end of 1987 U.S. net international indebtedness was $368 billion.

Eva Culen

Sources: U.S. Department of Commerce; Morgan Guaranty Trust Co; The Conference Board.

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